



# GENERAL ASSEMBLY COMMONWEALTH OF KENTUCKY

## 2006 REGULAR SESSION

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SENATE BILL NO. 226

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WEDNESDAY, MARCH 8, 2006

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The following bill was reported to the House from the Senate and ordered to be printed.

RECEIVED AND FILED  
DATE April 5, 2006  
10:35 Am  
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TREY GRAYSON  
SECRETARY OF STATE  
COMMONWEALTH OF KENTUCKY  
BY R. Adkins

AN ACT relating to water districts.

***Be it enacted by the General Assembly of the Commonwealth of Kentucky:***

1       Section 1. KRS 353.651 is amended to read as follows:

2       The following provisions of this section shall apply to any deep well:

3       (1) Drilling units:

4           (a) The commission shall, after notice and a hearing, to be conducted in  
5               accordance with KRS Chapter 13B, regulate the drilling and location of wells  
6               in any pool and the production therefrom so as to prevent reasonably  
7               avoidable net drainage from each developed unit (that is, drainage which is  
8               not equalized by counterdrainage) so that each owner in a pool shall have the  
9               right and opportunity to recover his fair and equitable share of the recoverable  
10              oil and gas in such pool.

11          (b) For the prevention of waste, to protect and enforce the correlative rights of the  
12              owners in a pool, and to avoid the augmenting and accumulation of risks  
13              arising from the drilling of an excessive number of wells, the commission  
14              shall, after notice and a hearing, to be conducted in accordance with KRS  
15              Chapter 13B, establish drilling units for each pool. The spacing of wells in  
16              proved oil and gas fields shall be governed by administrative regulations  
17              promulgated for that particular field. Wells drilled in areas not covered by  
18              special field administrative regulations shall be governed by statewide  
19              administrative regulations promulgated by the commission.

20          (c) Each well permitted to be drilled upon any drilling unit shall be drilled in  
21              accordance with the administrative regulations promulgated by the  
22              commission and in accordance with a spacing pattern fixed by the commission  
23              for the pool in which the well is located, with any exceptions that may be  
24              reasonably necessary where it is shown, in accordance with administrative  
25              regulations promulgated by the commission, that the unit is partly outside the

1 pool or for some other reason a well otherwise located on the unit would not  
2 be likely to produce in paying quantities, or topographical conditions are such  
3 as to make the drilling at the location unduly burdensome. Whenever an  
4 exception is granted, the commission shall take action as will offset any  
5 advantage which the person securing the exception may have over other  
6 owners by reason of the drilling of the well as an exception.

7 (d) No drilling unit established by the commission shall be smaller than the  
8 maximum area which can be drained efficiently by one (1) deep well so as to  
9 produce the reasonable maximum recoverable oil or gas in such area, unless  
10 an exception is granted in accordance with administrative regulations  
11 promulgated by the commission.

12 (e) An order establishing drilling units may be modified, altered, extended,  
13 amended, or vacated by the commission after notice and hearing as prescribed  
14 above.

15 (2) Pooling of interests in drilling units:

16 (a) When two (2) or more separately owned tracts are embraced within a drilling  
17 unit, or when there are separately owned interests in all or a part of a drilling  
18 unit, the interested persons may pool their tracts or interests for the  
19 development and operation of the drilling unit. In the absence of voluntary  
20 pooling and upon application of any operator having an interest in the drilling  
21 unit, and after the commission has given notice to all persons reasonably  
22 known to own an interest in the oil or gas in the drilling unit, and after a  
23 hearing conducted in accordance with KRS Chapter 13B, the commission  
24 shall enter an order pooling all tracts or interests in the drilling unit for the  
25 development and operation thereof and for the sharing production therefrom.  
26 Each pooling order shall be upon terms and conditions which are just and  
27 reasonable.

1 (b) All operations, including, but not limited to, the commencement, drilling, or  
2 operation of a deep well, upon any portion of a drilling unit for which a  
3 pooling order has been entered, shall be deemed for all purposes the conduct  
4 of those operations upon each separately owned tract in the drilling unit by the  
5 several owners thereof. That portion of the production allocated to a  
6 separately owned tract included in a drilling unit shall, when produced, be  
7 deemed for all purposes to have been actually produced from the tract by a  
8 deep well drilled thereon.

9 (c) Any pooling order under the provisions of subsection (2) of this section shall  
10 authorize the drilling and operation of a deep well for the production of oil or  
11 gas from the pooled acreage; shall designate the operator to drill and operate  
12 such deep well; shall prescribe the time and manner in which all owners of  
13 operating interests in the pooled tracts or portions of tracts may elect to  
14 participate therein; shall provide that all reasonable costs and expenses of  
15 drilling, completing, equipping, operating, plugging, and abandoning the deep  
16 well shall be borne, and all production therefrom shared, by all owners of  
17 operating interests in proportion to the acreage in the pooled tracts owned or  
18 under lease to each owner; and shall make provision for payment of all  
19 reasonable costs thereof, including reasonable charge for supervision and for  
20 interest on past due accounts, by all those who elect to participate therein.  
21 Upon the application of any operator having an interest in the drilling unit, the  
22 person or persons selected to drill and operate the deep well shall be  
23 determined by competitive bids~~[under the procedure set out in KRS 74.260]~~.

24 (d) Upon request, any pooling order shall provide just and equitable alternatives  
25 whereby an owner of an operating interest who does not elect to participate in  
26 the risk and cost of the drilling of a deep well may elect to surrender his  
27 interest or a portion thereof to the participating owners on a reasonable basis

1 and for a reasonable consideration, which, if not agreed upon, shall be  
 2 determined by the commission; or to participate in the drilling of the deep  
 3 well on a limited or carried basis on terms and conditions which, if not agreed  
 4 upon, shall be determined by the commission to be just and reasonable.

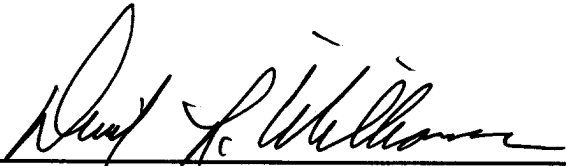
5 (e) If an operator owning an interest in a pooled drilling unit elects not to  
 6 participate in the risk and cost of drilling of a deep well thereon, and another  
 7 operator owning an interest therein, shall drill and operate, or pay the costs of  
 8 drilling and operating a deep well as provided in the commission's order, then  
 9 the operating owner shall be entitled to the share of production from the tracts  
 10 or portions thereof accruing to the interest of the nonparticipating owner,  
 11 exclusive of any royalty or overriding royalty reserved in any leases,  
 12 assignments thereof or agreements relating thereto, of the tracts or portions  
 13 thereof, or exclusive of one-eighth (1/8) of the production attributable to all  
 14 unleased tracts or portions thereof, until the market value of the  
 15 nonparticipating owner's share of the production, exclusive of any royalty,  
 16 overriding royalty or one-eighth (1/8) of production, equals two (2) times the  
 17 share of the costs payable by or charged to the interest of the nonparticipating  
 18 owner.

19 (f) If a dispute shall arise as to the costs of drilling and operating a deep well, the  
 20 commission shall determine and apportion the costs, within ninety (90) days  
 21 from the date of written notification to the commission of the existence of  
 22 such dispute.

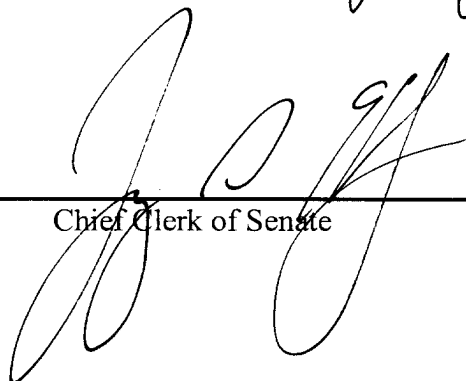
23 (3) This section shall not apply to wells drilled, deepened, or reopened for the injection  
 24 of water, gas, or other fluids into any subsurface formation.

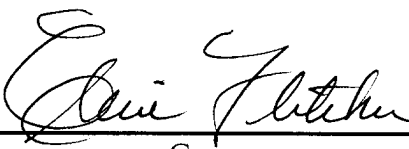
25 Section 2. The following KRS section is repealed:

26 74.260 Letting of work -- Notice -- Procedure -- Bond of bidder.

  
\_\_\_\_\_  
President of the Senate

  
\_\_\_\_\_  
Speaker House of Representatives

Attest:   
\_\_\_\_\_  
Chief Clerk of Senate

Approved   
\_\_\_\_\_  
Governor

Date 4/5/06